125 FERC ¶ 61,189
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Texas Gas Transmission, LLC Docket No. CP07-405-002

ORDER ON COMPLIANCE FILING

(Issued November 20, 2008)

1. On April 14, 2008, Texas Gas Transmission, LLC (Texas Gas) submitted a filing to comply with the Commission's February 29, 2008 order in this proceeding.[1] The February 29 Order granted Texas Gas authority to abandon certain facilities and expand in two phases its storage facilities at the Midland Gas Storage Field in Muhlenberg County, Kentucky (Midland Field). Texas Gas' proposal to charge market-based rates for firm and interruptible storage services provided by the expansion facilities was approved subject to conditions.

2. The Western Tennessee Municipal Group, the Jackson Energy Authority, City of Jackson, Tennessee, and the Kentucky Cities (collectively, Cities) filed a protest regarding Texas Gas' revised market-based rate proposal claiming that further tariff revisions are necessary to prevent degradation of existing service and asserting that Texas Gas should clarify the process for selling interruptible storage service at market-based rates.

3. As discussed below, the Commission finds that Texas Gas' compliance filing generally complies with the requirements of the February 29 Order. However, as discussed below, we will require Texas Gas to make further revisions when it files its actual tariff sheets in accordance with this order.

I. Background

4. As explained in the February 29 Order, Texas Gas received its initial authorization to construct and operate the Midland Field in 1969.[2] Since then, the Commission has

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[1] *Texas Gas Transmission, LLC*, 122 FERC ¶ 61,190 (February 29 Order); *order denying reh'g and granting clarification*, 123 FERC ¶ 61,198 (2008).

[2] *Texas Gas Transmission Corp.*, 41 FPC 826 (1969).

authorized and Texas Gas has placed in service six expansions adding additional storage wells and field lines making the Midland Field the largest storage field on Texas Gas' system, with a certificated capacity of 135.1 Bcf, which includes 55.7 Bcf of working gas and 79.4 Bcf of base gas.[3] Texas Gas currently provides storage service from the Midland Field pursuant to cost-based rates, providing: (1) firm no-notice storage service under Rate Schedules NNS, SGT, and SNN; (2) firm storage service under Rate Schedule FSS; and (3) interruptible storage service under Rate Schedule ISS.

5. In the February 29 Order, the Commission authorized Texas Gas to further expand its facilities at the Midland Field in two phases to provide up to an additional 8.25 Bcf of new firm storage capacity and 92.2 MMcf/d of increased firm deliverability. In the first phase, Texas Gas proposes to place 5.31 Bcf of additional storage capacity into service by November 1, 2008, to provide service for Anadarko Energy Services Company (Anadarko) and CIMA Energy Ltd (CIMA) pursuant to executed precedent agreements.[4] In the second phase, Texas Gas proposes to construct additional facilities to provide the remaining 2.94 Bcf of capacity, so that the entire 8.25 Bcf of storage capacity would be placed in service by November 1, 2009. The incremental storage capacity proposed in Phase 2 is currently unsubscribed.

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[3] *Texas Gas Transmission, LLC*, 117 FERC ¶ 61,261 (2006); *Texas Gas Transmission, LLC*, 110 FERC ¶ 61,132 (2005); *Texas Gas Transmission Corp.*, 92 FERC ¶ 62,061 (2000); *Texas Gas Transmission Corp.*, 51 FERC ¶ 61,360 (1990); *Texas Gas Transmission Corp.*, 51 FPC 1265 (1974); and *Texas Gas Transmission Corp.*, 50 FPC 363 (1973).

[4] The precedent agreement with Anadarko is for 2 Bcf of firm storage service for a term of 10 years at a negotiated rate. The precedent agreement with CIMA is for 3.05 Bcf of firm storage service also for a term of 10 years at a negotiated rate. The difference between the proposed storage capacity of 5.31 Bcf and the two precedent agreements totaling 5.05 Bcf is due to the fact that storage contract demands under Rate Schedule FSS are stated in terms of heat content, while certificated storage capacities are stated in terms of volume. Texas Gas explains that withdrawals of gas from the expansion facilities are scheduled to begin on November 1, 2008, and injection of gas into storage for the accounts of both Anadarko and CIMA commenced on April 1, 2008, so that gas would be ready for withdrawal in November. Because Rate Schedule FSS-M had not been fully approved by the Commission, Texas Gas states it entered into FSS negotiated agreements with these customers to allow for their summer injections. The negotiated rate agreements under Rate Schedule FSS were approved by order issued on April 15, 2008 (unpublished letter order, Docket No. RP00-426-033). Texas Gas states it will grant these two customers the opportunity to convert their service from FSS to FSS-M upon the Commission's final approval of Rate Schedule FSS-M.

6. The Commission also found that, with appropriate conditions, Texas Gas' proposal to offer firm and interruptible storage services under Rate Schedules FSS-M and ISS-M at market-based rates met the requirements for receiving authority to charge market-based rates under Natural Gas Act (NGA) section 4(f) [5] and the Commission's implementing regulations adopted in Order No. 678.[6] Specifically, the Commission found that the proposed capacity was related to a specific facility placed in service after August 8, 2005, that there is a demonstrated need for natural gas storage in the area to be served by Texas Gas' project, and that market-based rates are necessary to encourage Texas Gas to construct the entire 8.25 Bcf of storage capacity proposed.[7] However, as to the requirement under NGA section 4(f) that customers be adequately protected, we required Texas Gas to clarify its auction process for unsubscribed capacity, including interruptible service, and to ensure the protection of cost-based rate interruptible storage service customers. We also required Texas Gas to make several specific revisions to its pro forma tariff.

II. Notices, Interventions, and Comments

7. Public notice of Texas Gas' filing was published in the *Federal Register* on September 9, 2008 (Fed. Reg. 52350). Cities filed a protest. Texas Gas filed an answer to the protest. Although the Commission's Rules of Practice and Procedure do not permit answers to protests,[8] the Commission finds good cause to waive Rule 213 (a) to accept Texas Gas' answer since it assists the Commission in resolving the issues in this proceeding. Cities' protest and Texas Gas' answer will be addressed below.

III. Discussion

A. Customer Protections

8. The February 29 Order found that Texas Gas had shown, with one exception, that existing customers will not be subject to any additional costs, risks, or degradation of service resulting from the new services. The one concern involved Texas Gas' proposal to offer a new market-based rate interruptible storage service from the incremental

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[5] 15 U.S.C. § 717c(f) (2006).

[6] *Rate Regulation of Certain Natural Gas Storage Facilities*, Order No. 678, FERC Stats. & Regs. ¶ 31,220, Order No. 678-A, *order on clarification and reh'g,* 117 FERC ¶ 61,190 (2006) (Order No. 678).

[7] February 29 Order at P 22-31.

[8] 18 C.F.R. § 385.213(a)(2) (2008).

capacity in addition to its existing cost-based rate interruptible storage service. Regarding protections for those customers who may subsequently seek service using that portion of the proposed expansion not currently subscribed or which may become available in the future (e.g., upon expiration of the initial service agreements), the February 29 Order found that Texas Gas' auction proposal was not sufficiently clear to ensure that capacity will not be withheld and that customers will be protected. These issues are addressed below.

1. Auction process and reserve price

9. The February 29 Order required Texas Gas to clarify how its auction process will work for both unsubscribed capacity being marketed by Texas Gas and upon a customer's request for capacity. In its clarification, Texas Gas was required to explain how its "minimum acceptable bid" (the reserve price) would be set in both circumstances and make any tariff changes necessary to reflect this clarification. In addition, Texas Gas was directed to explain how the auction process would work for interruptible storage service.

a. Texas Gas' Proposal

10. Texas Gas has revised section 40 of the General Terms and Conditions (GT&C) of its tariff to clarify the auction procedures for market-based storage service. Texas Gas states that its auction process for firm, market-based rate storage capacity will be similar whether initiated by a customer or by Texas Gas, with the only difference being the initial request for capacity. Section 40(a) provides that a customer may initiate the auction process by submitting a request for service form which Texas Gas will post on its website announcing the date and terms of the auction. Texas Gas also can initiate the auction process by posting a notice on its website announcing the date and terms of the auction. The terms of the auction will include: (a) the quantity of capacity available; (b) the term for which the capacity is available; and (c) the minimum acceptable price for the service. For auctions of FSS-M storage capacity, the notice shall not be posted less than 48 hours prior to commencement of the auction (section 40(c)) and the bidding time periods will be set forth in the notice (section 40(e)). If more than one package of capacity has been noticed for auction, a separate auction will be conducted for each package. Texas Gas states that the proposed auction process and tariff language are similar to those approved by the Commission for Gulf South Pipeline Company, LP (Gulf South).[9]

11. Texas Gas proposes establishing a reserve price using one of three methods. First, Texas Gas proposes to set the initial reserve price for the remaining 3.2 Bcf of market-

[9] *See* Texas Gas' September 19, 2008 Data Response to Question Nos. 1 and 5. (citing *Gulf South Pipeline Co., LP,* 103 FERC ¶ 61,127 (2003)).

based rate storage capacity based on the rate and term agreed to with CIMA during the initial open season[10] and approved by the Commission. Texas Gas states that establishing a reserve price based on the highest initial rate agreed to with a non-affiliated customer in the open season has specifically been approved by the Commission.[11] Texas Gas states that it will use this process to establish the reserve price only during the initial auction for the 3.2 Bcf of remaining market-based rate storage capacity because it may not be an accurate indicator of market conditions over a long period of time. Section 40 of the GT&C describes the second and third methods for setting the reserve price after the initial auction of the remaining 3.2 Bcf of storage capacity. The reserve price for any remaining or subsequently available capacity will be established through a negotiation process or, if the parties are unable to agree on an acceptable price or if Texas Gas initiates the auction, the reserve price will be based on Texas Gas' cost of service, as described below.

12. Under the negotiation process, when an unaffiliated customer commences the auction process, Texas Gas proposes that it and the customer reach an arm's-length agreement as to what the reserve price will be for the capacity and term that the customer seeks to secure. Texas Gas contends that such an agreement with an unaffiliated customer assures that the reserve price is reasonable and Texas Gas is not attempting to withhold capacity because the price will have been established through arms-length negotiations.

13. In instances where Texas Gas and the customer are unable to reach an agreement, or if Texas Gas initiates the auction process, Texas Gas will set a minimum acceptable price not to exceed $1.8657 per MMBtu (the reserve price) times the maximum storage quantity on an annual basis. Texas Gas states that this reserve price is based on the estimated total costs for the Midland expansion.[12] Further, section 40(e)(ii) provides that Texas Gas reserves the right to reject any bid which would require it to offer FSS-M or

[10] CIMA was the only customer requesting storage service during the open season. CIMA and Texas Gas agreed to a negotiated rate of $1.284 per MMBtu times the maximum storage quantity on an annual basis with an initial term of ten years. The rate includes fees for injection, withdrawal, and capacity but excludes fuel and lost and unaccounted for gas.

[11] *Citing* Order No. 678, FERC Stats. & Regs. ¶ 31,220 at P 165.

[12] Texas Gas provided workpapers in its April 14, 2007 application that illustrate the calculations used to determine the cost-based reserve price.

ISS-M service below the acceptable bid. Texas Gas states that the reserve price includes all fees for injection, withdrawal, and capacity, excluding fuel and lost and unaccounted for gas.

14. Section 40(e)(iii) provides that Texas Gas will determine the "Winning Bid" based upon the bid(s) that has the highest rate per Dth, up to the total capacity. Texas Gas will notify the winning bidder by telephone within ten minutes following the close of the auction (section 40(e)(v)), and the winning bidder must accept the capacity within ten minutes and execute a new service agreement within 24 hours (section 40(f)). Any winning bidder not accepting its bid prior to the 10-minute deadline will forfeit its capacity.

15. Section 40(g) requires Texas Gas to post the results of the auction on its internet website no later than the close of business on the business day following the auction. The posting will include: (i) name of winning bidder(s); (ii) winning bid rate(s); (iii) duration of contract; (iv) contract quantity; (v) injection point and withdrawal point; and (vi) any affiliate relationship between Texas Gas and the winning bidder.

16. For ISS-M service, Texas Gas proposes a bidding process similar to FSS-M service, with the following exceptions: (a) ISS-M capacity will only be available for auction if the first action under the transaction is an injection or withdrawal that occurs in a month being actively traded on the New York Mercantile Exchange (NYMEX) on the day the auction is conducted (section 40(b)); (b) notice of an ISS-M auction will be posted by 10:00 a.m. on the day of the auction (section 40(c)); and (c) ISS-M auction periods will be at least ten minutes in duration (section 40(e)).

b. <u>Cities' Protest and Texas Gas' Answer</u>

17. Cities note that Texas Gas proposes to apply its new section 40 auction provisions to interruptible service under Rate Schedule ISS-M in situations where "the first action under the transaction is an injection or withdrawal that occurs in a month being actively traded on the NYMEX on the day the auction is conducted."[13] Cities state that this raises the question as to whether Texas Gas will sell interruptible market-based capacity when such conditions do not exist. For these reasons, Cities assert that the Commission should require Texas Gas to file revisions to Rate Schedule ISS-M that specify whether and the extent to which service is limited to the auction winner.

18. Texas Gas in its answer clarifies that service under Rate Schedule ISS-M will not always be awarded in an auction. Texas Gas explains that when the first action

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[13] *Citing* section 40(b) on Pro Forma Sheet No. 298.

(injections or withdrawals) under an ISS-M contract occurs in a month that is not being actively traded on the NYMEX, Texas Gas will sell ISS-M service on a real-time basis in a non-auction format.

19. Texas Gas explains that linking the ISS-M auction to NYMEX trading allows participants that bid on the capacity to promptly hedge the transaction, thus reducing price risk. In order to contract for ISS-M capacity outside the auction process, Texas Gas states that a party should determine if there is available capacity for the month from Texas Gas' website and, if so, contact Texas Gas and negotiate a rate for the capacity.[14] Texas Gas also states this process is identical to the process that the Commission approved for Gulf South (formerly Koch Gateway Pipeline Company).[15]

c. <u>Commission Response</u>

20. Section 284.505(a)(2) requires that a storage service provider seeking market-based rate authority pursuant to section 4(f) must provide a means of protecting customers from the potential exercise of market power. In Order No. 678 we found that "a proposal that acts to prevent withholding as a method of exercising substantial market power, tempered with a reasonable reserve price which would allow a section 4(f) applicant to recover its investment appears to be the best way to satisfy the test."[16]

21. We find that Texas Gas' revised auction process for selling firm and interruptible storage service using the Midland Field expansion capacity is properly designed and meets the customer protection requirement of NGA section 4(f) with the exception discussed below. In Order No. 637, the Commission found that a properly designed auction should satisfy various principles including: (1) notification of the auction; (2) predictable timing; (3) open to all bidders; (4) user friendly with accessible rules; (5) full disclosure prior to auction of procedures for bidding and selecting winning bid; (6) no favoritism in selecting winning bid; and (7) disclosure of transactional information, including prices and volumes.[17] Here, Texas Gas has proposed a transparent auction process that meets these requirements. Information regarding the start time, the quantity of capacity available, the term, and the minimum acceptable bid is required to be posted on Texas Gas' website and will be available to all potential market participants.

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[14] *See* Texas Gas' September 19, 2008 Data Response to Question No. 4.

[15] C*iting Koch Gateway Pipeline Co*., 92 FERC ¶ 61,087 (2000).

[16] Order No. 678, FERC Stats. and Regs. ¶ 31,220 at P 163.

[17] *Regulation of Short-Term Natural Gas Transportation Services and Regulation of Interstate Natural Gas Transportation Services*, Order No. 637, FERC Stats. & Regs. ¶ 31,091, at 31,294 (2000).

The method for selecting the winning bid is specified in the tariff and Texas Gas is required to disclose the results of the auction including the winning bid rate, contract term, and contract quantity. As noted by Texas Gas, the Commission has approved a similar auction process for the selling of storage capacity on the Gulf South pipeline.[18]

22. We also find that the proposed auction process will prevent Texas Gas from exercising market power by withholding capacity from the market. Under this process, Texas Gas is unlikely to be able to withhold capacity from the market since an auction can be initiated by a customer as well as by Texas Gas. In addition, we find that, with one exception, Texas Gas' proposed reserve prices are reasonable and will prevent economic withholding.[19] During the initial auction for unsubscribed capacity of the Midland Field, the reserve price will be set at the price agreed to by a non-affiliated customer in the open season conducted for the project. For subsequent auctions, the reserve price will be set at a price agreed to in arms-length negotiation with an unaffiliated customer or at a price no higher than the cost-based rate for the Midland expansion facilities. The requirement that Texas Gas post an acceptable price no higher than the cost-based reserve price when it initiates an auction, or when there is no agreement on price, will prevent Texas Gas from exercising market power. While a customer can bid for and be awarded capacity at a price that exceeds the cost-based reserve price, any price arrived at, which is above that price, is the result of competing buyers bidding the price up as a result of scarcity, not a result of Texas Gas withholding capacity. The Commission has recognized the reasonableness of setting a reserve price using these approaches[20] and we find them reasonable under the specific facts presented here.

23. We also find that Texas Gas has adequately supported its proposed cost-based reserve price of $1.8657 per MMBtu of maximum storage quantity. The rate is designed using an annual cost of service of $15,672,261 and a storage capacity of 8,400,000 Dth. In developing the cost of service, Texas Gas has used a depreciation rate of 1.95 percent,

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[18] *See Gulf South Pipeline Co., LP*, 103 FERC ¶ 61,127 (2003).

[19] The exception is for interruptible service sold outside the auction process, as discussed below in P 24.

[20] Order No. 678, FERC Stats. & Regs. ¶ 31,220 at P165 ("[a] few examples of how this [reserve] price may be set include: prices offered by competing storage sellers in the same market, . . .; applicant's total costs; applicant's other already agreed upon rates (e.g., the highest initial rate agreed to at arms-length with a non-affiliate in the initial open season); or another type of reserve price for which the applicant can provide a just and reasonable basis convincing to the Commission based on the facts of a specific case.").

which it explains is the same depreciation rate approved in Texas Gas' rate case settlement in Docket No. RP05-317.[21] The overall rate of return of 9.458 percent incorporates a return on equity of 11.50 percent and debt costs of 5.92 percent. Texas Gas states these are the same capital cost components approved by the Commission for its incremental Fayetteville and Greenville Lateral rates approved in Docket No. CP07-417-00.[22] If Texas Gas proposes to change the level of the cost-based reserve price in the future, it must make a filing under NGA section 4, providing cost data and the required exhibits to support the revised rate.

24. However, we will not accept Texas Gas' proposal to sell interruptible market-based rate service under Rate Schedule ISS-M outside of an auction process. Texas Gas states that it intends to sell capacity outside the auction process by negotiating a rate with a party wishing to purchase available interruptible storage service. As proposed, there are no consumer safeguards that would prevent Texas Gas from physically or economically withholding this capacity from the market. We recognize that we have permitted Gulf South to sell interruptible storage service priced at market-based rates in the same manner proposed here by Texas Gas.[23] However, Gulf South was authorized to sell storage service at market-based rates based on a finding that it lacked market power using our traditional market power analysis.[24] In contrast, we are granting Texas Gas the authority to charge market-based rates under NGA section 4(f) that includes a presumption that the storage provider will have market power.[25] In this context, we find that additional safeguards are necessary to prevent the exercise of market power. Therefore, we will require Texas Gas to modify its proposal regarding the sale of ISS-M capacity outside the auction process to ensure adequate customer protections.

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[21] *See* Texas Gas' September 19, 2008 Data Response to Question No. 2. The Commission approved the uncontested settlement by order issued on April 21, 2006. *Texas Gas Transmission, LLC*, 115 FERC ¶ 61,092 (2006).

[22] *See* Texas Gas' September 19, 2008 Data Response to Question No. 2. The Commission authorized the construction and operation of the Fayetteville and Greenville Laterals by order issued on May 2, 2008. *Texas Gas Transmission, LLC*, 123 FERC ¶ 61,118 (2008).

[23] *See Koch Gateway Pipeline Co.*, 92 FERC ¶ 61,087 (2000).

[24] *See Gulf South Pipeline Co., LP*, 101 FERC ¶ 61,204, at P 41-45 (2002); *Koch Gateway Pipeline Co.*, 66 FERC ¶ 61,385 (1994).

[25] 18 C.F.R. § 284.505(b) (2008) ("[a]ny storage service provider seeking market-based rates for storage capacity pursuant to this section will be presumed by the Commission to have market power.").

25. Finally, we will require Texas Gas to make two minor corrections to proposed section 40 of the GT&C. Texas Gas must revise section 40(e)(iii) to insert missing language that addresses how Texas Gas will award capacity if it receives two or more equal bids and the total capacity of the combined winning bids is equal to or less than the total package capacity available. Texas Gas must also revise section 40(e)(v) to replace the reference of Gulf South with Texas Gas.

2. Tariff Revisions to Prevent Degradation of Existing Services

26. The February 29 Order raised concerns regarding protection of Texas Gas' cost-based rate customers involving Texas Gas' proposal to offer a new market-based rate interruptible storage service from the expansion capacity in addition to its existing cost-based rate interruptible storage service. We required Texas Gas to file an explanation of how the offer of market-based interruptible storage service will be made in such a way as to ensure the protection of cost-based interruptible storage service customers and to propose appropriate tariff provisions to fully ensure the protections. Authorization to provide interruptible storage at market-based rates was conditioned on Commission approval of Texas Gas' clarified proposal.

a. Texas Gas' Proposal

27. To protect cost-based interruptible and firm storage service customers, Texas Gas proposes to separate the cost-based rate storage service from the market-based rate storage service, leaving the choice of service to the customers. To isolate the volumes associated with the cost-based and market-based rate services, Texas Gas proposes to install and maintain separate logical meters to be utilized solely for FSS-M and ISS-M services. Texas Gas states that it will limit the market-based storage capacity and peak day deliverability to the certificated amounts of 8.25 Bcf and 92.2 MMcf/d, respectively, and will maintain the remaining storage and peak deliverability exclusively for use by the cost-based rate customers. The requirement to separate cost-based and market-based rate storage services is set forth in new section 41, Separation of Storage Service.

28. Texas Gas maintains that this separation of market-base rate capacity from cost-based rate capacity, along with the limitation on the available market-based rate capacity, ensures that the customer has control over the type of service requested and eliminates the possibility of Texas Gas favoring market-based interruptible storage customers over cost-based rate interruptible storage customers.

b. Cities' Protest and Texas Gas' Answer

29. Cities support the addition of section 41 to Texas Gas' tariff. However, Cities argue that additional revisions to this tariff provision are necessary to prevent degradation of existing cost-based storage and transportation services. Cities contend that the Commission should require tariff language that clearly demonstrates that Texas Gas will use storage capacity for system integrity in a manner that is fair and non-discriminatory between cost-based and market-based customers. To accomplish this objective, Cities contend that the tariff should provide that any reduction in the availability of interruptible storage service due to system integrity use will be prorated as between cost-based and market-based rate storage services.

30. Cities state that a related issue involves a service disruption that might occur during an outage in the storage facility. Cities state that Texas Gas has indicated that if an outage involves only equipment that was added to the Midland Field as a result of the expansion, then only market-based service under Rate Schedules FSS-M and ISS-M will be affected. However, if the outage involves only pre-existing equipment, then all storage customers will be affected on a pro rata basis. Cities state that this proposal appears reasonable and requests that section 41 be revised to incorporate Texas Gas' proposal.

31. In response, Texas Gas explains that it has no intention of only using cost-based rate storage capacity to manage system integrity, that any reductions in the availability of interruptible storage service due to system integrity issues will be prorated as between interruptible cost-based and market-based rate services. Texas Gas contends that managing system integrity issues benefits all customers utilizing Texas Gas' storage services and that the burden of managing any issues should be borne by all storage customers.

32. Regarding system outages, Texas Gas responds that it will use a three-prong approach: (1) if Texas Gas can reasonably determine that the facility outage involves only equipment dedicated to market-based customers, then only the market-based customers will be affected; (2) if Texas Gas can reasonably determine that the facility outage involves only equipment dedicated to cost-based customers, then only the cost-based customers will be affected; and (3) if the facility outage involves equipment that benefits all customers or Texas Gas cannot reasonably determine that the facility outage is limited to equipment dedicated to only one category of customers, all of the storage customers will be affected on a prorated basis. Texas Gas contends that such an approach ensures that both cost-based and market-based customers are treated on a non-discriminatory basis.

c. Commission Response

33. We find that Texas Gas' proposal to use separate nomination, scheduling, and allocation procedures for cost-based rate storage service and market-based rate storage service and to limit the volume of storage capacity and deliverability available for market-based rate storage service will ensure that capacity available for cost-based rate interruptible services will not be adversely affected. We also find that Texas Gas' proposals addressing concerns raised by Cities regarding storage utilized for system integrity and system outages are reasonable.[26] We direct Texas Gas to incorporate these proposals in section 41 of its tariff.

3. Accounting Treatment for the 11 Miles of Pipeline Expansion

34. The February 29 Order required Texas Gas to clarify its proposed accounting treatment of the costs and allocated expenses attributable to the eleven-mile pipeline expansion so that the accounting of storage-related costs and transmission-related costs are maintained separately.

a. Texas Gas' Proposal

35. Texas Gas states it will account for market-based rate service separately from cost-based rate service, maintaining sufficient records of cost and revenue data consistent with the Uniform System of Accounts and will maintain separate accounting records for revenues and costs related to market-based storage service. Concerning the 11-mile loop line serving as the link to access storage service for the market-based rate storage customers, Texas Gas proposes to allocate all capital costs to the market-based rate customers. Texas Gas explains that the cost attributable to the 11-mile loop line will be recorded in a sub-account of Gas Plant Account 353, Underground Storage Plant Lines and that recording all the costs in the sub-account should eliminate any concerns that cost-based transmission storage customers would be subsidizing market-based rate costs. Texas Gas reports that the storage Operating and Maintenance (O&M) expense and Administrative and General (A&G) costs will be allocated based on the ratio of the Gas Plant in Service (Account 101) balance relating to market-based storage assets to the Gas Plant in Service balance relating to total storage assets. Texas Gas will then assign to the market-based storage service the portion of the O&M and A&G costs allocated to its storage facilities based on this ratio.

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[26] In instances where the outage involves only pre-existing equipment, we find that Texas Gas' proposal that only the cost-based customer will be impacted is more reasonable than Cities' suggestion that all storage customers be affected on a pro-rata basis.

b. Commission Response

36. We find that Texas Gas' proposal will properly account for and allocate the costs associated with the 11-mile pipeline to market-based rate customers. Thus, cost-based rate customers will be adequately protected.

B. Additional Modifications to Pro Forma Tariff

37. The February 29 Order required Texas Gas to file revised pro forma tariff sheets to: (1) update Sheet No. 33 to reflect market-based rates for Rate Schedules FSS-M and ISS-M; (2) revise Sheet No. 1 to include a reference to the currently effective FSS-M and ISS-M Storage Rate; (3) remove any references to Rate Schedules FSS or ISS that are included in the FSS-M or ISS-M Rate Schedules; and (4) revise the pro forma tariff sheets in accordance with the requirements set forth in Appendix B of the February 29 Order.

38. We find that Texas Gas has satisfactorily complied with the requirements listed above.

The Commission orders:

Texas Gas' proposal to charge market-based rates for storage services utilizing the expansion capacity of the Midland Field is approved consistent with the discussion in the body of this order. Texas Gas is directed to file actual tariff sheets that reflect the revisions required in this order at least 60 days but no more than 90 days prior to the proposed effective date of the tariff sheets.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.